

GSE SYSTEMS INC
Form 10-Q
November 09, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period
Ended September 30, 2009.

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Transition
Period from to .

Commission File Number: 001-14785

GSE SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

52-1868008
(I.R.S. Employer Identification No.)

1332 Londontown Blvd., Suite 200, Sykesville, MD 21784
(Address of principal executive office and zip code)

Registrant's telephone number, including area code: (410) 970-7800

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated
filer

Accelerated filer

Non-accelerated filer

Smaller reporting
company

(Do not check if a smaller
reporting company)

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Indicate by check mark whether the registrant is a shell company (as defined in rule 12(b)-2 of the Exchange Act). Yes [] No [X]

There were 18,925,370 shares of common stock, with a par value of \$.01 per share outstanding as of November 6, 2009.

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GSE SYSTEMS, INC.

QUARTERLY REPORT ON FORM 10-Q

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

GSE SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	Unaudited September 30, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 21,717	\$ 8,274
Restricted cash	3,825	2,962
Contract receivables	15,824	10,951
Prepaid expenses and other current assets	1,378	1,110
Total current assets	42,744	23,297
Equipment and leasehold improvements, net	1,019	1,133
Software development costs, net	1,609	1,487
Goodwill	1,739	1,739
Long-term restricted cash	2,391	2,027
Other assets	677	1,332
Total assets	\$ 50,179	\$ 31,015
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,276	\$ 1,655
Accrued expenses	722	685
Accrued compensation and payroll taxes	1,546	1,234
Billings in excess of revenue earned	2,809	4,020
Accrued warranty	1,155	1,066
Other current liabilities	814	749
Total current liabilities	10,322	9,409
Other liabilities	670	906
Total liabilities	10,992	10,315
Commitments and contingencies	-	-
Stockholders' equity:		
Preferred stock \$.01 par value, 2,000,000 shares authorized, shares issued and outstanding none in 2009 and 2008	-	-
Common stock \$.01 par value, 30,000,000 shares authorized, shares issued and outstanding 18,925,370 in 2009 and 15,968,122 in 2008	189	160
Additional paid-in capital	67,325	50,572

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Accumulated deficit	(27,456)	(28,818)
Accumulated other comprehensive loss	(871)	(1,214)
Total stockholders' equity	39,187	20,700
Total liabilities and stockholders' equity	\$ 50,179	\$ 31,015

The accompanying notes are an integral part of these consolidated financial statements.

GSE SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Contract revenue	\$ 10,217	\$ 7,001	\$ 28,995	\$ 20,639
Cost of revenue	7,662	5,023	21,398	14,889
Gross profit	2,555	1,978	7,597	5,750
Operating expenses:				
Selling, general and administrative	2,000	1,694	5,611	5,585
Depreciation	127	114	369	317
Total operating expenses	2,127	1,808	5,980	5,902
Operating income (loss)	428	170	1,617	(152)
Interest income, net	16	42	50	76
Gain (loss) on derivative instruments	523	(170)	730	(165)
Other expense, net	(97)	(43)	(318)	(172)
Income (loss) before income taxes	870	(1)	2,079	(413)
Provision for income taxes	412	57	717	208
Net income (loss)	\$ 458	\$ (58)	\$ 1,362	\$ (621)
Basic income (loss) per common share	\$ 0.03	\$ 0.00	\$ 0.08	\$ (0.04)
Diluted income (loss) per common share	\$ 0.03	\$ 0.00	\$ 0.08	\$ (0.04)

The accompanying notes are an integral part of these consolidated financial statements.

GSE SYSTEMS, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE
 INCOME (LOSS)

(in thousands)
 (Unaudited)

	September 30,		September 30,	
	2009	2008	2009	2008
Net income (loss)	\$ 458	\$ (58)	\$ 1,362	\$ (621)
Foreign currency translation adjustment	314	(224)	343	(136)
Comprehensive income (loss)	\$ 772	\$ (282)	\$ 1,705	\$ (757)

The accompanying notes are an integral part of these consolidated financial statements.

GSE SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN
STOCKHOLDERS' EQUITY

(in thousands)

(Unaudited)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss		Total
	Shares	Amount	Shares	Amount			Loss	Total	
Balance, January 1, 2009	-	\$ -	15,968	\$ 160	\$ 50,572	\$ (28,818)	\$ (1,214)	\$ 20,700	
Stock-based compensation expense	-	-	-	-	685	-	-	685	
Issuance of common stock	-	-	2,875	29	15,863	-	-	15,892	
Common stock issued for options exercised	-	-	58	-	103	-	-	103	
Common stock issued for services provided	-	-	14	-	84	-	-	84	
Common stock issued for warrants exercised	-	-	10	-	18	-	-	18	
Foreign currency translation adjustment	-	-	-	-	-	-	343	343	
Net income	-	-	-	-	-	1,362	-	1,362	
Balance, September 30, 2009	-	\$ -	18,925	\$ 189	\$ 67,325	\$ (27,456)	\$ (871)	\$ 39,187	

The accompanying notes are an integral part of these consolidated financial statements.

GSE SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)
(Unaudited)

	Nine months ended September 30,	
	2009	2008
Cash flows from operating activities:		
Net income (loss)	\$ 1,362	\$ (621)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	369	317
Capitalized software amortization	354	195
Amortization of deferred financing costs	37	124
Stock-based compensation expense	769	426
Elimination of profit on Emirates Simulation Academy, LLC contract	-	38
Amortization of deferred profit on Emirates Simulation Academy, LLC contract	(136)	-
Equity loss on investment in Emirates Simulation Academy, LLC	466	138
(Gain)/loss on derivative instruments	(730)	165
Changes in assets and liabilities:		
Contract receivables	(5,021)	(1,162)
Prepaid expenses and other assets	293	(37)
Accounts payable, accrued compensation and accrued expenses	2,129	(620)
Billings in excess of revenues earned	(1,144)	1,402
Accrued warranty reserves	89	237
Other liabilities	506	171
Net cash provided by (used in) operating activities	(657)	773
Cash flows from investing activities:		
Capital expenditures	(256)	(600)
Capitalized software development costs	(476)	(530)
Investment in Emirates Simulation Academy, LLC	-	(422)
Restriction of cash as collateral for letters of credit, bank guarantees and foreign currency contracts		
	(626)	(358)
Net cash used in investing activities	(1,358)	(1,910)
Cash flows from financing activities:		
Net proceeds from issuance of common stock		